

Message Text

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ACTION EUR-25

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FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 9615

C O N F I D E N T I A L BUDAPEST 2118

E. O. 11652: GDS

TAGS: HU, EFIN, EIND

SUBJECT: APPLICABILITY OF JOHNSON ACT TO HUNGARY

REF: STATE 090581

1. EMBASSY APPRECIATES BACKGROUND INFORMATION PROVIDED DEPTTEL ON WWI \$4 MILLION USG CLAIM AGAINST HUNGARIANS. WE UNFORTUNATELY DO NOT BELIEVE THAT FEKETE WILL BE MOFIED BY DEPT' S ASSURANCES, GIVEN CURIOUS HANDLING WHICH CLAIM HAS RECEIVED FROM USG. WE WOULD APPRECIATE SOME ADDITIONAL INFORMATION BEFORE WE APPROACH GOH.

2. KEY POINT REMAINS QUESTION OF POSSIBLE U. S. BAD FAITH AS INDICATED BUDAPEST 1068. WE HAVE DOUBLE- CHECKED WITH SALANS (BY TELEPHONE) AND HE CONFIRMED THAT BOTH NEGOTIATING PARTIES LAST OCTOBER WANTED TO WIPE OUT ALL REPEAT ALL EXISTING FINANCIAL CLAIMS. SALANS HAS TOLD US THAT THERE WERE SEVERAL MATTERS WHICH FEKETE DID NOT EVEN WISH TO DISCUSS, AMONG THEM THE AERIAL INCIDENT OF 1952, BUT THAT HE, SALANS, PRESSURED FEKETE INTO SETTLING THEM SO AS TO HAVE A CLEAN RECORD WITH THE U. S. BOTH SIDES LEFT THE NEGOTIATING TABLE BELIEVING THAT THEY HAD, INDEED, SETTLED ALL OUTSTANDING FINANCIAL CLAIMS. SALANS SAID TO BEST OF HIS RECOLLECTION \$4 MILLION CLAIM NOT MENTIONED DURING DISCUSSIONS.

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3. LEGALISTIC DISTINCTION MADE BY DEPT BETWEEN CLAIMS OF U. S. NATIONALS AND THOSE OF USG ITSELF WILL NOT STAND CLOSE SCRUTINY, SINCE A USG CLAIM, THE AERIAL INCIDENT, WAS IN FACT SETTLED IN OCTOBER NEGOTIATIONS AT INSISTENCE OF USG. IT WILL BE DIFFICULT TO EXPLAIN TO FEKETE WHY \$4 MILLION CLAIM WAS NOT RAISED LAST OCTOBER WHEN AERIAL INCIDENT CLAIM WAS.

4. RAISING MATTERS LIKE " GOVERNMENT TO GOVERNMENT CLAIMS SUCH AS THE USG CLAIM FOR PROPOERTY LOCATED AT ROOSEVELT TER, THE HUNGARIAN CLAIM TO THE CROWN OF ST. STEPHEN (AND) THE SURPLUS PROPERTY DEBT (AND THE WORLD WAR I DEPT), AS DEPTTEL DOES, IS REALLY IRRELEVANT. THE DEPARTMENT AND THIS EMBASSY HAVE REPEATEDLY TAKEN THE POSITION THAT THE CROWN OF ST. STEPHEN IS NOT AN ITEM FOR BARTER, THAT IT BELONGS TO THE HUNGARIAN NATION AND WILL BE RETURNED WHEN THERE IS A SUBSTANTIAL IMPROVEMENT IN U. S. - HUNGARIAN RELATIONS. THE SURPLUS PROPERTY DEBT IS NOT UNDER CONTENTION. IT HAS BEEN SETTLED AND THE HUNGARIANS ARE PAYING IT OFF IN FORINTS IN MONTHLY INSTALLMENTS WHICH ARE USED TO FINANCE THE OPERATION OF THE EMBASSY. THIS ARRANGEMENT WAS AGREED TO IN THE SURPLUS PROPERTY AGREEMENT CONCLUDED ON APRIL 24, 1946. THE USG CLAIM FOR PROPERTY LOCATED AT ROOSEVELT TER IS NOT A CLAIM IN A TRUE SENSE OF THE WORD. THE HUNGARIAN GOVERNMENT MANY YEARS EXPROPRIATED USG PROPERTY. THE CONTENTION IS NOT ABOUT THE RIGHT TO EXPROPRIATE BUT ABOUT THE COMPENSATION PAID.

5. WE WOULD ADD THAT FINAL IMPETUS TO SETTLEMENT OF CLAIMS CAME FROM SECRETARY ROGERS DURING HIS VISIT HERE JULY 6-7. IT WAS THE SECRETARY WHO PRODDED THE HUNGARIANS TO TAKE A MORE POSITIVE ATTITUDE TOWARD THE CLAIMS QUESTION. AS A RESULT, GOH MADE A POLICY DECISION TO GO FOR A CLAIMS SETTLEMENT AND REPLACED ITS EXISTING NEGOTIATOR, A FLINTY- MINDED BUREAUCRAT FROM THE FINANCE MINISTRY, WITH FEKETE. WE WOULD ASSUME THAT WHEN THE SECRETARY AND DEPUTY PREMIER VALYI SIGNED CLAIMS AGREEMENT, BOTH BELIEVED THEY WERE WIPING FINANCIAL CLAIMS QUESTIONS OFF THE BOOKS COMPLETELY.

6. THEREFORE, WHILE HUNGARIANS MAY APPRECIATE ASSURANCES IN REFTTEL ON QUESTIONS OF MFN AND JOHNSON ACT, THEY WILL
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REMAIN PUZZLED BY THE APPARENT EXHUMATION OF AN OLD WW I CLAIM AT A TIME WHEN THEY BELIEVED EVERYTHING HAD BEEN SETTLED. THIS GOES BEYOND QUESTIONS INVOLVING THE JOHNSON ACT AND EVEN MFN. FOR IT HAS BEEN THE POLICY OF GOH AND THE NATIONAL BANK IN RECENT YEARS TO BUILD UP A REPUTATION OF FINANCIAL RELIABILITY IN INTERNATIONAL MONETARY CIRCLES, TO SHOW HUNGARY AS A COUNTRY WHICH MEETS ITS LEGITIMATE

OBLIGATIONS. FROM THIS STANDPOINT, OUTSTANDING \$4 MILLION CLAIM MEANS HUNGARY STILL IN DEFAULT TO U. S. AND IT IS THIS SIMPLE FACT, NOT STRICTURES WHICH JOHNSON ACT PLACES ON HUNGARIAN FINANCIAL ACTIVITIES , WHICH SO NETTLES FEKETE.

7. ACTION REQUESTED: THIS BRINGS US TO THE QUESTION OF WHAT WE DO NOW. WE WOULD APPRECIATE LEARNING FROM DEPT IF AND WHEN \$4 MILLION CLAIM WAS FORMALLY RAISED WITH GOH AND WHAT GOH RESPONSE WAS. WE HAVE NO RECORD OF SUCH AN APPROACH. WE WOULD THEN SUGGEST THAT DEPT EXAMINE POSSIBILITIES OF IN SOME WAY SUBSUMING CLAIM UNDER CLAIMS SETTLEMENT OR, ALTERNATIVELY, PROVIDE US GUIDANCE FOR AN OFFICIAL APPROACH TO GOH WHICH MIGHT LEAD TO A SETTLEMENT OF THE CLAIM. WE WOULD ALSO APPRECIATE RECEIVING COPIES OF THE CASEY- HAUGE LETTER AND ANY OTHER EARLIER OR SUBSEQUENT CORRESPONDENCE AND BACKGROUND INFORMATION WHICH RELATED TO THE \$4 MILLION CLAIM. WITH THIS MATERIAL IN HAND, WE WILL THEN BE IN A POSITION TO DISCUSS THE MATTER WITH GOH.
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